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India

LOCK-UP REPORT

Cotton Quarterly Update - December 2009

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Report Highlights:

Post's estimate for MY 2009/10 cotton production has been marginally lowered to 23.8 million bales. Consumption has been revised marginally higher to 19.1 million bales on recovery in demand for cotton yarn and textiles. Due to strong international prices, exports are forecast higher at 6.7 million bales, provided there is no change in the current export policy.

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SECTION I – SITUATION AND OUTLOOK

Table 1: Commodity, Cotton (480 lb bales), PSD

Cotton India	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Aug 2007			Market Year Begin: Aug 2008			Market Year Begin: Aug 2009		
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Jan
			Data			Data			Data
Area Planted	0	9,439	9,439	0	9,373	9,406	0	10,200	10,260
Area Harvested	9,439	9,439	9,439	9,373	9,373	9,406	10,000	10,200	10,260
Beginning Stocks	7,664	7,664	7,664	7,234	6,584	6,634	10,159	9,729	9,684
Production	24,600	24,000	24,000	22,500	22,600	22,600	24,250	24,200	23,800
Imports	600	600	600	625	625	550	400	400	400
MY Imports from U.S.	0	187	187	0	190	190	0	180	180
Total Supply	32,864	32,264	32,264	30,359	29,809	29,784	34,809	34,329	33,884
Exports	7,030	7,030	7,030	2,300	2,200	2,360	6,700	6,400	6,700
Use	18,600	17,160	17,160	17,900	16,400	16,260	18,500	17,300	17,550
Loss	0	1,490	1,440	0	1,480	1,480	0	1,550	1,550
Total Dom. Cons.	18,600	18,650	18,600	17,900	17,880	17,740	18,500	18,850	19,100
Ending Stocks	7,234	6,584	6,634	10,159	9,729	9,684	9,609	9,079	8,084
Total Distribution	32,864	32,264	32,264	30,359	29,809	29,784	34,809	34,329	33,884

Note: Production figures in the table include 937,000 bales of loose cotton.

MY 2009/10 Production Lowered Marginally

Post's estimate of marketing year (MY 2009/10) cotton production has been revised slightly lower to 23.8 million bales. If realized, it will be India's second largest crop, marginally lower than the record MY 2007/08 crop of 24.0 million bales. Based on the latest planting estimates compiled by the Ministry of Agriculture, MY 2009/10 area is forecast at a record 10.3 million hectares, more than 9 percent increase over last year. Despite record planting, yield prospects have been adversely affected in most of the cotton growing areas due to delayed/uneven distribution of monsoon rains during the planting/early growth stage (July-Early September). Heavy rains and cyclones in late October caused some damage to the crop in coastal Andhra Pradesh. On November 13, 2009, the Cotton Advisory Board came out with their first forecast of the MY 2009/10 crop of 23.0 million bales (29.5 million

Indian bales). Industry estimates are currently ranging from 21.0 to 23.8 million bales.

Currently, the new crop is progressing well under adequate soil moisture conditions, and there are no reports of any major pest/disease incidence in most of the cotton growing areas. The late season rains in October/November in most of the central/southern cotton growing states helped augment soil moisture availability to the standing crop. Nevertheless, a 30-45 days delay in planting of the cotton crop, and less-than-favorable weather conditions during the vegetative growth stage compared to last year, may adversely impact yields. However, recent late season rains in the central and southern states will help partially offset the expected yield loss. Consequently, Post expects overall cotton yields to be nearly 4 percent lower than last year. Post estimates that the MY 2009/10 production will reach 23.8 million bales from an estimated area of 10.26 million hectares.

Based on the latest Ministry of Agriculture estimates, MY 2008/09 cotton area is revised marginally upward to 9.4 million hectares.

Market Arrivals Strong

Market sources report that the harvest is progressing well under ideal weather conditions and there is no major damage due to the late season rains in most states. Despite the delayed crop, market arrivals through November 21, 2009 are estimated at 3.76 million bales, marginally ahead of last year's arrival during the same period ^[1], supporting Post's near record production estimate. Current daily arrivals are estimated at 115,000 bales per day, and are expected to peak in the next two to three weeks. Market sources report that the quality of the cotton arriving in most of the markets is good compared to last year.

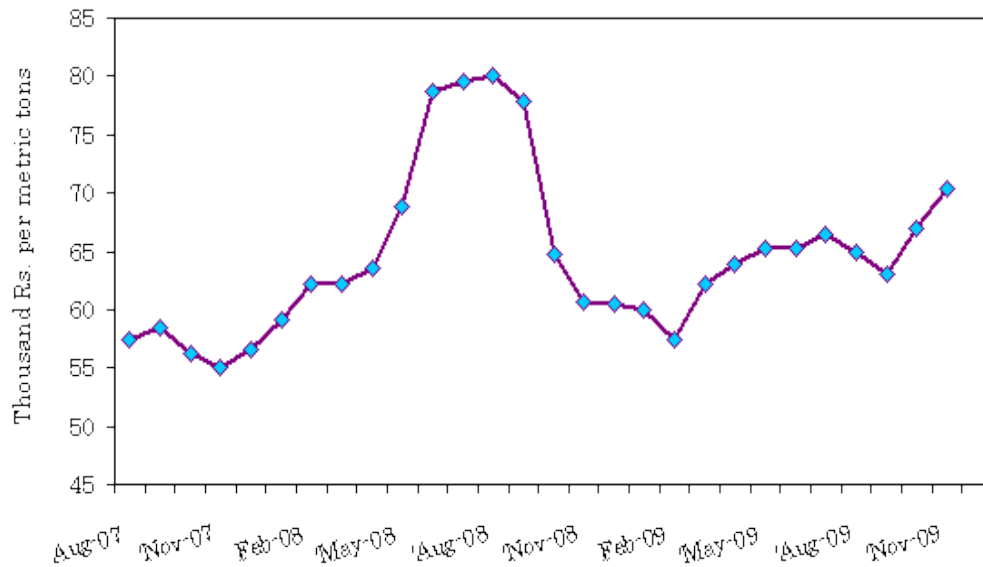
^[1] Refer Cotton Corporation of India website http://www.cotcorp.gov.in/current_cotton.asp for latest state wise market arrivals estimate in 170 kg Indian bales.

Prices Firm on Strong International Prices; No MSP Procurement

Domestic cotton prices have been on a steady rise from the beginning of MY 2009/10 on strong international prices and continued strong domestic demand. Current spot prices of most staple varieties range from 64 to 69 cents/lb, about 4 to 8 percent higher than August price. Prices are expected to gain further on expected strong export demand despite market arrivals gaining pace in December/January.

International cotton prices will largely guide the domestic price movement during most of the current season.

Fig 1: Shankar -6 Cotton Prices



Source: Cotton Association of India (Formerly East India Cotton Association)-Spot Prices

The Government of India (GOI) left the minimum support prices (MSP) of most seed cotton varieties unchanged from the last year's level ^[1]. With the rising cotton lint prices, the current seed cotton prices are well above the government fixed MSP ^[2]. Consequently, most of the seed cotton arrivals are being procured by the private trade. Government agencies have not procured any seed cotton under

MSP operations to date. If the international cotton prices remain firm during the major arrival season (up to March), there may not be any significant government procurement of cotton at MSP during the MY 2009/10 unlike last year (see IN8140).

Due to the strong international prices, Indian cotton is becoming more competitive in the international market. A significant portion of the arrivals thus far have been picked up by exporters, both local traders and international merchants, who are actively purchasing seed cotton for future exports. Industry sources expect cotton prices to gain further on expected strong export demand.

^[1] The GOI hiked the MSP of cotton varieties by 26 to 48 percent in MY 2008/09 (see IN8140).

^[2] The ruling seed cotton price of Shankar-6 variety is Rs. 3000 to 3100 per metric ton compared to the MSP of Rs. 2,850 per metric ton.

Consumption Raised

Post's MY 2009/10 consumption estimate has been revised marginally higher to 19.1 million bales on expected strong demand, both domestic and export, for cotton yarn and textile products. After the MY 2008/09 recession, most of the mills have been scaling up their operations since July 2009 on improving price realization from cotton yarn and other textile products in both domestic and export markets. Based on the latest official monthly consumption estimates (see table 3), MY 2008/09 consumption is marginally revised to 17.7 million bales.

Exports Prospects Improve on Strong International Prices

Comparatively strong international cotton prices have improved the export prospects for Indian cotton. Consequently, Post's MY 2009/10 exports have been raised to 6.7 million bales assuming no change in the current export policy for cotton.

Industry sources report that Indian cotton is currently very competitive in the international market, about 5 percent cheaper vis-à-vis comparable cotton from other origins. There has been a big spurt in export registrations for the new crop since October. The total export registrations from August thru mid-November estimated are at 1.92 million bales ^[3], whereas only about 315,000 bales were exported during August-November last year (Table 5).

The local textile industry recently approached the government seeking a suspension of cotton exports due to concerns about rising cotton prices due to strong exports. Traders, exporters and farmers have opposed the move as there are sufficient cotton supplies in the country. Industry sources report the government may not impose export controls immediately as export curbs will adversely impact the seed cotton prices during the peak arrival season (December-February). However, the government will

closely monitor the cotton price and supply situation, and may take export control measures in the later part of the season, if deemed necessary.

Given the adequate domestic supply situation, market sources expect exports to continue steadily during the marketing year. Consequently, MY 2009/10 exports are forecast to reach 6.7 million bales assuming no government interventions on the current export policy for cotton.

Based on the latest official shipment figures compiled by the Textile Commissioner's Office, MY 2008/09 exports have been revised marginally to 2.36 million bales (see Table 5).

^[3] <http://www.txcindia.com/html/Exp%20Reg%20&%20shipment%20sub.htm>

SECTION II – STATISTICAL TABLES

Table 2: Area, Production & Yield of Cotton in Major States

(Area in 000 hectares, Production in 000 bales of 480 lb., Yield in Kg/Hectare)

		Final	Final	Final	Final	Final	Revised	Revised
STATE		2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Maharashtra	Area	2766	2840	2889	3107	3194	3142	3500
	Production	2420	4060	2811	3904	4841	4841	5622
	Yield	191	311	212	274	330	335	350
Gujarat	Area	1647	1906	2077	2390	2422	2354	2624
	Production	3904	5700	6949	8042	8589	7027	7418
	Yield	516	651	728	733	772	650	615
Madhya Pradesh	Area	591	576	600	639	630	625	646
	Production	1534	1249	1405	1484	1562	1405	1405
	Yield	565	472	510	505	540	490	474
Punjab	Area	452	509	557	607	604	527	536
	Production	808	1288	1562	1874	1562	1366	1249
	Yield	389	551	610	672	563	565	507
Haryana	Area	526	621	583	530	483	456	520
	Production	898	1210	1015	1171	1171	1093	1132
	Yield	372	424	379	481	528	522	474
Rajasthan	Area	344	438	472	350	339	302	444
	Production	714	859	859	703	703	586	898
	Yield	452	427	396	437	451	422	440
Andhra Pradesh	Area	837	1178	1037	972	1138	1399	1320
	Production	2139	2538	2499	2811	3592	4138	3904
	Yield	557	469	525	630	687	644	644
Karnataka	Area	313	521	450	378	402	408	450
	Production	328	625	508	468	625	703	703
	Yield	228	261	246	270	338	375	340
Tamil Nadu	Area	103	129	136	100	119	109	120
	Production	293	429	429	390	312	390	390
	Yield	619	725	688	850	571	780	708
Others	Area	51	68	72	71	108	84	100
	Production	78	78	78	78	78	156	156
	Yield	333	250	236	239	157	405	340
Loose	Production	859	937	937	937	937	937	937
All-India	Area	7630	8786	8873	9144	9439	9406	10260
	Production	13976	18973	19051	21862	23970	22643	23814
	Yield	399	470	467	521	553	524	505

**Table 3: Cotton Consumption (Mills & Small Spinning Sectors) by Months
(Million US Bales)**

Month\Year	2005/06	2006/07	2007/08	2008/09	2009/10
Aug	1.350	1.402	1.448	1.376	1.462
Sept	1.186	1.400	1.408	1.320	
Oct	1.206	1.353	1.430	1.291	
Nov	1.178	1.391	1.323	1.323	
Dec	1.277	1.444	1.473	1.404	
Jan	1.281	1.423	1.448	1.333	
Feb	1.190	1.336	1.416	1.267	
Mar	1.342	1.436	1.441	1.367	
Apr	1.278	1.410	1.404	1.327	
May	1.312	1.397	1.480	1.393	
Jun	1.309	1.394	1.448	1.394	
Jul	1.361	1.438	1.444	1.465	
TOTAL	15.268	16.823	17.163	16.259	1.462

Source: The Textile Commissioner's Office, GOI.

Table 4: Month-end Prices of Popular Varieties

(Prices in Rupees per metric tons)

Year	ICS 201	ICS 202	ICS 105 28mm	ICS 105 29mm	ICS 106 33mm	ICS 107
	Bengal Deshi (below 22 mm)	SG J-34 (25 mm)	H-4 (28 mm)	Shankar-6 (29 mm)	MCU-5 (33 mm)	DCH-32 (35 mm)
2008/09						
Aug	75360	74520	79020	80140	82960	91390
Sept	70020	68050	77330	77890	81550	89980
Oct	74520	60740	63830	64680	69740	88580
Nov	71143	55396	60458	60739	68331	84360
Dec	73112	57646	59052	60458	65801	78736
Jan	72549	59052	58771	59895	63551	78736
Feb	64676	56240	55959	57365	61301	74518
Mar	64113	60739	59333	62145	64676	90265
Apr	65238	62989	59052	63832	65238	89984
May	67488	64676	61301	65238	66644	90546
Jun	67769	65238	61583	65238	67207	91108
Jul	66925	64957	63270	66363	68050	93077
2009/10						
Aug	66925	63832	62426	64957	68050	93077
Sept	65801	59614	60739	62989	66644	92514
Oct	68613	62145	61583	66925	66644	92514
Nov 22	70019	66082	66925	70300	69175	112480

Source: Cotton Association of India (Formerly East India Cotton Association).

Table 5: Cotton Exports by Months (Thousand US Bales)

Month\Year	2008/09	2009/10
Aug	28.345	157.441
Sept	6.186	214.781
Oct	22.952	178.945
Nov	258.132	
Dec	150.521	
Jan	203.251	
Feb	278.803	
Mar	366.501	
Apr	239.349	
May	302.301	
Jun	466.662	
Jul	39.468	
TOTAL	2362.471	551.168

Source: The Textile Commissioner's Office, GOI.